

# Resource allocation and service design in local government: a case study

Resource allocation and service design

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## Abstract

**Purpose** – Following the introduction of the New Zealand Local Government Amendment Acts (1996, 2002), some significant changes have taken place in resource allocation and service design of local government organizations. The purpose of this paper is to investigate the effect of local government reforms on budgetary processes and service design in a New Zealand local government entity.

**Design/methodology/approach** – The paper adopts a qualitative case study research involving semi-structured interviews with the key informants to understand the evolving role of resource allocation the study investigates the budgetary processes in a metropolitan city council.

**Findings** – The traditional role of budget has changed to a more active and visible instrument in explaining the effectiveness and efficiency in the use and allocation of resources. Budgets have been given a central role in the management of local government finances. The reform process in New Zealand has enabled local government organizations to organize their activities by using the concepts of public and private goods.

**Research limitations/implications** – This is a single local government entity case study. Any generalization of the conclusions from this study should undertaken with care even though there are similarities between New Zealand and other countries even though they operate under different institutional contexts in different countries.

**Originality/value** – This paper makes important contribution by highlighting the implications of resource allocation on service design within New Zealand local government entities.

**Keywords** Local government reform, Service delivery, Public sector reform

**Paper type** Research paper

## Introduction

Traditionally budgets in public sector organizations served as a mechanism for allocating and controlling expenditures with reference to certain spending limits (Burns *et al.*, 2004; Axelrod, 1995). The role of budgets was to ensure that estimated revenue would cover estimated costs, and subsequently budgeted targets were used to control actual spending. As public sector organizations faced budget constraints they were looking for opportunities for improving productivity in order to provide better services with the same level of resources (Cook and Hughes, 2009b; Williamson and Douglas, 2013; Jimenez, 2009; Alam and Nandan, 2005; Guthrie and English, 1997; Guthrie *et al.*, 2005). Mere refinement of budgeting in the public sector was seen to be insufficient to address various issues on how better services could be delivered. Provision of services emphasizes the role of accountability on different attributes of service performance, such as, quality, efficiency, timeliness, accuracy, accessibility, and professionalism. The emergence of public sector reform provided a significant opportunity to use the budgeting process to design and arrange public services on a more transparent basis (Goetz and Jenkins, 2005; Benito and Bastida, 2009; Bosworth, 2005; Philipps and Stewart, 2009). This paper looks into how the budgetary process was used to redesign services provided by a local government organization in New Zealand. Such organizations operate in a complex environment as they are expected to anticipate and



design services. The recent reforms in local government organizations mirror the overall changes in the public sector as they aim to achieve efficiency and effectiveness in service provisions by ensuring transparency and accountability (Coe, 2008; Pallott, 1999). As the budgetary process involves the allocation of resources under the gaze of increased expectations, its focus needs to change from compliance culture to improved customer focus in service delivery. In this context, the ideas behind new public management (NPM) suggest the adoption of rational principles, such as clear goals, corporate plans, and information systems, to allocate resources in public sector organizations (Burns *et al.*, 2004; Broadbent and Guthrie, 1992; Goddard, 2001). To facilitate the efficient resource allocation process several legislations were introduced in the form of financial reforms such as accrual accounting and administrative reforms such as, accountability and employment practices (Rivenbark and Roenigk, 2011; Kloot and Martin, 2001; Broadbent and Guthrie, 1992). Local government organizations were given freedom to promote efficient financial management in the interests of their residents and ratepayers. However, it was expected that different local government organizations would review their own circumstances to introduce a resource allocation process to manage services. This paper investigates how budgeting is instrumental in designing services in a local government organization in New Zealand. To do so, it addresses the following research questions:

*RQ1.* How the budgeting process is implicated the design and delivery of services in a local government organization?

*RQ2.* How different approaches to service categorization can influence the budgetary process?

The remainder of this paper is organized as follows. The next section of the paper evaluates the role of budgeting in service delivery processes; this is followed by a description of the local government reform in New Zealand in section three. The research methodology is outlined in the fourth section. The fifth section presents the research findings. The final section of the paper concludes in terms of the lessons learned and the implications for future research.

### **Budgeting in public sector reform**

Public sector reforms have largely focused on introducing greater efficiency, effectiveness, transparency, and accountability in the public sector organizations (Whitehead, 2009; Williamson and Douglas, 2013; Devas and Grant, 2003; Guthrie *et al.*, 2005, 1999). As part of the reform process, a new model known as the "NPM" was introduced as the existing practices were found to be inefficient, costly, and unresponsive to social and economic development. Such an approach attempts to introduce management structures, practices, and principles that are based on the market principles (Cook and Hughes, 2009a; Guthrie *et al.*, 2005; Hood, 1995). NPM combined insights from public choice, the new institutional economics and managerialism to reduce the scope for public sector activities (Boston, 1990; Hood, 1995). Such a move should not be seen as an isolated phenomenon but rather viewed as part of an overall attempt to shift away from public production towards corporatization and privatization.

The main objective of budgetary reforms was to introduce closer links between inputs, objectives and outputs. Public budgeting moved towards the identification of

costs on accrual basis and to provide managers with clear signals for decision taking (Burns *et al.*, 2004; Anessi-Pessina and Steccolini, 2007; Guthrie *et al.*, 1999). The roles played by accounting and budgeting were emphasized in accounting literature, specifically; on how NPM practices were introduced (Chua, 1986) and how accounting impacted on operational activities (Lapsley and Pallot, 2000, 2001). The emphasis on organizational outputs provides the concept of performance-based budgeting. Resources are now allocated on the basis of outputs to be produced or the results to be achieved, not in terms of the inputs to be purchased or on last year's level of expenses (Shick, 1992). Performance-based budgeting requires disclosure provision of both inputs and outputs thus allowing the assessment of the economy and efficiency of programmes. Budgeting based on performance and accountability assists prioritization and decision making because it provides a method of identifying and analysing multiple variables (e.g. output, outcomes, and programmes). Performance-based systems are linked to a long-term strategy formulation process.

The reform process provided a significant opportunity to use budgets in efficient allocation of resources and organize activities on the basis of competitive advantage (Pralhad and Hamel, 1990). The budgetary process can be useful to categorize services into core and non-core services and funded differently. While core services are funded through rate-based systems, non-core services can be provided on a self-sustaining basis or with some support from the organization and can be delivered by private organizations. While such classification can be influenced by community values, preferences, and priorities, public sector reform provides a framework for analyzing services into different categories such as, public good, private good, and core and non-core services. By emphasizing the distinction between inputs, outputs and outcomes, budgeting can focus on efficiency gains by combining inputs to produce clearly defined outputs (Feidler and Staal, 2012; Fischbacher and Gächter, 2010). The idea of core competence can help design the outputs that are more desirable for the public sector to produce. Core competence is build around the notions that the organization should concentrate on the most important resources and capabilities which are difficult for competitors to imitate and difficult to understand. In public sector situations, the idea of core competence helps to define public sector involvement in production of services on the notions of public and private good concepts. By introducing a greater freedom to manage, it was made possible to cut inefficient services and reduce overstaffing and restructure the organization into manageable units for achieving clearly defined single objectives and producing specified outputs. Budgeting as a resource allocation device can generate discussion around issues such as what to produce and how to fund these activities.

### **Local government reform in New Zealand**

The Local Government Act of 1989 had significant influence on the planning and budgeting activities of local authorities. Section 223C specifies the principles of accountability. It requires the authority to set clear objectives for its activities, and to measure its performance in relation to the stated objectives. Some of the unfinished businesses of the Local Government Act of 1989 were dealt with in the subsequent Local Government Act in 1996. The Local Government Act of 1996 requires all councils to have a long-term plan which can guide short-term planning, including annual budgets. Such plans are to be undertaken after proper consultation with the community served by the local government authorities. The long-term planning includes outputs and outcomes including cost of capital, revenue, cashflow projections, asset management, and borrowing

requirements. Lapsley and Pallot (2000) evaluated these two Local Government Acts of 1989 and 1996 as complementary as termed as first and second wave of reforms in New Zealand local government. While the first concentrated on structural aspects, the second introduced financial and operational aspects to form a total package. The second Act is more relevant for resource allocation and budgeting in local government organization. Subsequently, the Local Government Act of 2002 refocused the purpose of local government entities to represent the community expectations through democratic decision making. The Act of 2002 builds on previous Acts to integrate the mechanisms of the Long Term Council Community Plans. Resource allocation principles are also specified in the 1996 Act. This influences how local councils operate their activities. The Local Government Amendment (No. 3) 1996, Section 122F, states: (a) the principle that the costs of any expenditure should be recovered at the time that the benefits of that expenditure accrue, (b) the principle that, to the extent that any expenditure (i) is independent of the number of persons who benefit; or (ii) generates benefits that do not accrue to identified persons or groups; or (iii) generates benefits to the community generally,- the cost of that expenditure should be allocated in a manner consistent with economic efficiency and appropriate to the nature and distribution of that benefits generated, which manner may require the use of rating mechanisms under the Rating Power Act 1988; (c) the principle that the costs of any expenditure should be recovered from persons or categories of persons in a manner that matches the extent to which the direct benefits of that expenditure accrue to those persons or categories of persons; (d) the principle that the costs of any expenditure to control negative effects that are contributed to by the action or inaction of any persons or categories of persons should be allocated to those persons or categories of persons in a way that matches the extent to which they contribute to the need for that expenditure. Taken together the Local Government Acts of 1989, 1996 and 2002 have implication for different ways of offering public services. While such Acts were expected to influence the budgetary process and service design, this study investigated a local government organization to understand the changing nature of the budgetary process.

### Research method

This study is concerned primarily with implications for the budgeting process on changes to service design within a local government organization in New Zealand. To understand the effect of changes in service design, the study explores how a particular local government organization applied specific criteria set the Local Government Act which required to categories services into public and private goods. As such, the study adopted a case research approach to investigate the changes influenced by the Local Government Acts 1989, 1996 and how they continued to exist in subsequent periods (Local Government Act, 2002). These changes are considered to be significant as subsequent changes build of these changes and incorporate other areas of reforms. This case study was conducted in a metropolitan city council which is located in the North Island in New Zealand, thereafter termed as the "Council-A". The "Council-A" restructured its internal operation and reorganized functions from ten operating departments down to four major divisions. These divisions are: corporate services, recreation and community service, works service, and planning and regulatory services. During the study, particular attention was given to the ways in which planning and budgeting policies were formulated.

The "Council-A" deregulated some of its services by creating separate trading companies. The effect of these changes on budgeting was captured through interviews

with officials of the council. Empirical data were gathered by means of interviews and document analysis (Birnberg *et al.*, 1990; Yin, 1989). A total of ten key informants were deemed knowledgeable for conducting the interviews. The selection of informants was largely based on judgments made from the initial contact with the case organization. All four divisional managers in addition to the CEO and accounting and budgeting managers were interviewed. The primary method of data collection was through semi-structured interviews. The questions were kept open-ended to permit interviewees to provide their own experiences and views. At this stage, informants were encouraged to speak freely (Gomm, 2004). These interviews were subsequently transcribed and returned to the respondents for validating the accuracy of interviews. The information gathered from the interviews was supplemented by reviewing the annual plans and annual reports of the "Council-A".

### Contexts of budgeting and service design

Planning and budgeting in local government involves a whole range of activities throughout the annual reporting cycle. Other planning activities such as the district plan, the business plans, the recreation plan, and the community development plans are integrated into the annual planning and budgetary process. The Acts (1989, 1996, and 2002) require that all planning processes start with community inputs. Community surveys are also used to measure the effectiveness of existing programs. A divisional manager explains the central role of community surveys:

We do a community survey, so that's where the process starts and it is often followed by a review of services. Such a review helps to determine current and future need for services.

Once the community survey is complete, the annual planning process commences.

The "Council-A" organizes workshops for elected members and senior officers, at which outcomes and outputs are determined. It uses information from community surveys and other research findings to develop a series of desired outcomes. The workshops produce draft goals and objectives which are then released for public comment. Outcomes and outputs so determined help the council to arrive performance targets for each area of outputs.

As part of the reform process significant local government changes have been laid down by legislation which requires all councils to divest, outsource, and corporatize services. To understand the nature of services provided by all councils, it is necessary to distinguish services into core and discretionary types. Core activities are those which councils must provide to its ratepayers and are generally funded from rates. These services are often defined in the legislation and are usually difficult to delegate. Discretionary activities on the other hand are those services which councils have the discretion to provide, and are normally funded through a combination of 'user pays' and subsidies. As the community expects these services to be provided, councils continue to provide these services.

Services provided by public sector organizations are different from commercially produced consumer goods because they are not directly monitored through price mechanisms. Without the discipline of market forces it is important that the services are provided in a manner that is open, and comprehended by the public. The Local Government Act requires a communication process between the council and the community. All councils must ask the public for approval and agreement to its budgets and plans. The Local Government Act identifies four separate groups for the consultation

process and these groups are: elected council, community boards, the organization and individuals that comprise the general public, and the management team. As the annual plan and budgets are viewed as major means of accountability, the Act requires specific disclosures. Public consultation on annual planning and budgeting must take place at two times. Direct consultations with service recipients may be useful as it can provide a partial view of individuals' preferences for a limited range of alternatives. However, such an approach is unlikely to provide guidance for deciding for services as it may be difficult to aggregate individuals' preferences across the range of spending options. Most councils use some form of direct consultation during the budgetary process usually to communicate council views during the budgetary process. Many of the budget parameters are identified through this initial consultative process. The preparation of a budget, along with the annual plan, is an internal process involving the officials and councillors. Once the plan is finalized, the second phase of the consultation process begins. Formal submission from the public is invited before the plan is adopted. Changes to budgets and plans are made as a result of these submissions.

### **Funding principles and budgeting**

The Local Government Acts (1989, 1996, and 2002) require local authorities to classify each service according to the benefits provided and are classified as: direct benefits, general benefits, or control of negative effects. While direct benefits are received directly by an individual or group, general benefits are provided to the community as a whole. This distinction is related to the concepts of public, merit, and private goods. The control of negative effects is needed to protect the community from actual or potential problems (e.g. dog control or noise control). The distinction between services, which are public and those which are private, is blurred. For example, perceptions have been changing about whether the services of libraries and museums should be provided free, or whether they should be paid for by the users, at least in part. To decide such issues the authority must consider what it is mandated to provide, what its responsibilities are, and what image it wishes to promote.

The "Council-A" responded to Section 122L (b) of the Act by reviewing the level of expenditure on activities and re-assessing priorities into: statutory obligations, core services (provision of infrastructure, provision of community facilities and services), regulatory functions (economic development and marketing, and representation and civic affairs) and non-essential services.

A structured review process was undertaken to determine the public vs private good component of each activity, along with a public, merit, and private good benefit assessment, and a determination of the appropriate funding mechanism. The funding mechanism is based on apportionment of expenditure. After all services were categorized based on theatrical principles of public and private goods, the next stage of revision phase allowed "Council-A" to examine the information generated by the structured review, and to make amendments if it deemed necessary, based on considerations such as, the interests of residents and ratepayers, and fairness and equity. One service manager commented:

We organised different groups consisting of different stakeholders and held several meetings to decide the public and private good components of each service. Such meetings were conducted in such a way that the member groups could engage in detailed discussion and see each others views. Each group was given a range of services to decide who benefited from these services and how they could be funded. Even though there were different views, such

meetings provided necessary information for further adjustments. Except on three occasions which went through further discussion before they were settled, all decisions were agreed by participants.

The “Council-A” used an analytical private/public benefit assessment formula to gauge an aggregate public/private benefit mix for each activity. As most of the services are of mixed nature and there is hardly any service which can be classified as purely public or private, the “Council-A” decided to categorize services into five classes such as purely public, mainly public, mixed, mainly private, and purely private. One manager commented:

Most of our services are mixed and it is very difficult to classify them into some classes. It all depends on the perceptions as to who benefits and from whose point of view.

The overall process of service categorization can be explained with an example. The “Council-A” went through an iteration process to classify each service and then to reclassify based on feedback and consultation through extensive group discussions. During the first round the “Council-A” through its discussion process decided that the library services were a mix of public and private good. While individuals benefit from library services by becoming more knowledgeable and competent, the public benefit accrues to the community through increasing general literacy which helps to empower the community. Based on theoretical considerations it was considered that library services can be categorized as 75 per cent private and 25 per cent public goods. In the second round the “Council-A” modified its theoretical basis of determining library services in the interest of the residents and ratepayers. The library had a recovery rate of about 12 per cent of its cost. If the “Council-A” suddenly raises service charges to cover 75 per cent of the cost it would have a negative impact on the community. Library service could be unused. A manager in charge of library services commented:

The library provides services ranging from general library facilities to lending books, CDs, DVDs, and space for exhibitions. Some of these services are provided free while others are charged at nominal rates. I don't think we can use the full cost recovery principles in our services. Let me give you an example, the library charges 50c per DVD per night. If we charge on full cost recovery, we need to charge \$2.50 per night which is comparable to private providers and at these prices very few people will avail these services.

The private benefit cost recovery component can only be charged to a level which the general public can afford or are willing to pay. In the final round the council concluded that the library services should be funded 15 per cent from the user charges and 85 per cent from the general rates (a pragmatic movement in the right direction). Once services are categorized into public/private goods and regulatory/discretionary activities, it becomes easier to consider options for an efficient basis of funding. When certain activities are categorized as core and public good in nature the “Council-A” funds such services from general rates. In other situations when services are either private or mixed between private and public, funding is normally through “user pays” or partly supported by rates and partly through cost recovery basis. The following table shows different types of services and the basis of resource allocation for budget purposes Table I.

### **Budgeting and the reform process**

Before the reform, the annual budgetary process was concerned with: what level of rates would be required to meet the currently budgeted annual expenditure how the budget was going to be managed, and how various needs were met. Budgeting was

**Table I.**  
Sources of funding  
for budget  
preparation

| Services categories                                  | Type of services  | Funding basis   | Budget basis                           |
|--|---|---|--|
| Public good<br>(core service)                        | Sustainable environment<br>City beautification<br>Emergency management<br>Roads, pavements, drains<br>Parks, gardens, open space<br>Refuse collection | A combination of:<br>Grants<br>cost recovery basis<br>rates | Cost recovery                          |
| Merit goods (essential<br>but private in nature)     | Porting facilities<br>Leisure centre<br>Cemeteries<br>Library, museum, and art facilities<br>Pre-school, child care                                   | User charges<br>subscription<br>Annual fees                 | Supported<br>partly self-<br>sustained |
| Private goods<br>(commercial sustaining<br>services) | City design centre<br>Commercial building<br>Some sporting facilities<br>(Golf clubs, tennis courts)  | Cost plus return<br>market prices                           | Self                                   |

largely concerned with establishing the level of rates which would be required to maintain the current level of services, and determine the inputs required to provide these services. As different services were financed from a common source of rate-based finance, budgets were used to allocate funds to different programmes and levels of activities.

A large proportion of the "Council-A"s annual budget was required to maintain existing services at their current levels, and only a relatively small amount was made available for extended services each year. In a situation of financial constraints, the budgets were influenced by a number of factors, such as, the cost of maintaining existing service at existing level, the likely funds available from borrowing and central government, the cost of servicing debts; and the funds available for extension of existing services and the establishment of new services. One manager explains:

We were given three levels of options. I shall give an example on different options for parks and garden services. In parks and garden operations, we had to show what we could provide for at minus 10%, status quo, and a plus 5% of the previous year's funding levels. This worked OK, except in some areas where we had growth through natural processes. In the areas of parks and gardens we were required to establish new gardens and parks as the city was still expanding and added to that we were gaining new reserves which needed to be maintained.

The short-term focus on budgeting was mainly concerned with maintaining current services rather than planning within the financial constraints. The resource allocation process was political with councillors vying for scarce funds. The focus on short-term resource allocation promoted a culture where many councillors were looking for a hands-on management role to satisfy their political interests and on-going responsibilities. Another manager commented:

You get a real mixture; certain councillors will only discuss policy issues because they believe they are responsible for the formulation of policies. We have some councillors who would like to get into every pothole and the air pressure of every tyre, so you have got that mixture.

The short-term planning horizon was not satisfactory. A more strategic approach was required in order to better allocate the resources in a manner, which would provide the



greatest longer-term benefits per dollar committed. This was particularly important at the "Council-A" because, like most other local authorities, it needed to invest in infrastructure assets (roads, water and sewage pipes, etc.) which benefit the community over a long period of time. The planning and budgetary process may become particularly difficult in the discretionary areas of spending. One manager commented:

We have a list of projects that have been around for many years. Each year councilors could raise his or her pet project but if you are shrewd operator and you can detect whether there is a need for it. Some projects get prominence as pressures are suddenly generated through creating an atmosphere of urgency. Such projects get prominence as lobby groups start creating pressure by publishing letters in the local media, letters to the editor, letters to councilors and that type of thing.

### *Resource allocation and service design*

Budget preparation on the basis of the inherent nature of services into public, merit, and private goods provided a useful basis for looking the service management on a sound basis. However, it may be argued that the net effect of the whole exercise can be minimal if we compare such budget figures with the pre-reform budgetary regime. To be more specific, library charges remain identical after the detailed process of categorizing library services and ascertaining the public-private proportions. An official commented:

If you compare the library charges between pre and post reform periods for different services, you can see that the charges are almost similar. However, such categorization helps us to prioritize our library services. We offer the core services as part of our commitment and for non-core services we analyze the demand as to who benefits and whether charges can be made to offer a quality service.

Budgeting based on performance and accountability assists prioritization and the decision making because it provides a method of identifying and analysing multiple variables (e.g. output, outcomes, and programmes). Performance based systems are linked to a long-term strategy formulation process. The main features of the budgetary process after the reform are described below:

- (1) Strategic focus: annual planning and budgeting is seen within the overall strategic plans of the organization. Such plans are normally drawn for 20 and revised on a three year period. The budget manager commented:

We tend to focus on how the annual budget fits with our organizational vision and such visions in our strategic plan tend to be a key driver of the budgetary process. Once we have evaluated the projects we rank each project and see how it supports our goals in the strategic plans. Before the reform, such activities were driven by short term objectives of councilors and were ad-hoc in nature.

- (2) Services provision: the budgetary process reflects the distinction between core and discretionary services. As discussed before, each service also clearly shows who benefits from the service and how it is funded. One service manager commented:

We have usually a pretty good idea in getting our core activities budget which usually comprises the required activities as specified in the legislation including operating and maintenance budgets. We provide detailed analysis and show how all these services are provided and these are the differences between this and last year. As you can expect the approval process for these services happen fairly quickly within 2 hours whereas it used to take days before as they used to debate every single item.

Part of the core budget is discretionary in nature. As such activities are funded through general rates and usually become prone to political maneuvering. The councilors try to create pressure for getting funding for their pet projects. The “Council-A” tried to develop policies to guide this process. The budget manager further commented:

If a councilor promotes a project he/she needs to justify and explain why they need to do it. Such a justification should also provide the consequences for not doing the project. Once we get a wish list we see how such a project fits with our strategic plan and how it might affect the community. So basically, if there is a project it needs to be justified strategically and also see how it is going to be funded?

The non-core discretionary part concentrates on the desirable and private/mixed good services. These services are either run on a commercial basis or on a “user pays” basis and a commercial market based approach can be adopted for allocating resources. The budget officer again commented:

I think we have done really well in this area. As we offer services on a “user pays” basis everybody understands how much resources need to be allocated through budgets. The budget for these activities is simple as they are run on a self sustainability basis. As compared to the previous period which was marked by political lobbying for these services, these services are now based on market based principles.

While it was apparent that some services needed to be classified as non-core based, it was difficult to implement such concepts. A service manager commented:

It was difficult to withdraw some services even though these needed to be provided on a cost recovery basis, we could not implement such practices. I think it was due to historical reasons and how some services are perceived in the society.

The changes in the budgetary process are shown in Table II.

### Conclusion

This paper investigated whether the role of budget changed as result of the local government reform process. Local government organizations are responsible for the provision of various services. As there was no transparent basis for resource allocation to competing demands the budgetary process was dominated by lobbying and political maneuvering. The reform process tried to address these issues by introducing more transparent financial and accountability systems. In addition, such changes also provided a basis for categorizing services into core and non-core activities and facilitated a classification of services based on public and private goods.

|  | Budgetary process-prior to reform              | Budgetary process-after the reform   |
|--|--|--|
| Budgetary decision                         | Incremental                                    | Strategic  |
| Focus                                      | Input based and Bureaucratic control           | Output and outcome based control   |
| Scope of activities for budget preparation | Historical and politics in resource allocation | Different categories activities and different basis of resource allocation |
| Budget analysis                            | Prioritization based on lobbying and politics  | Minimization of political maneuvering in resource allocation               |

**Table II.**  
Services and basis of resource allocation

The evidence from this case study suggests that some part of the budgetary process, especially the consultation process, is perceived to be useful as it provides a basis of identifying and prioritizing services. Such a process was also used to classify services into private and public goods. Once services were classified they were further refined on the basis of equity and affordability principles. Resource allocation through budgetary process was more transparent as more options were evaluated to support each service. Even though the budgetary process did not completely adhere to rationalistic principles of public and private good principles, the local government decision making now had a better basis for allocating resources. The internal processes of budget preparation remain largely unchanged especially for those services which were funded through rates. Budgets are still viewed as important in an environment where decision making is influenced by both economic rationality and political maneuvering. However, where services were clearly categorized more of a private nature, a variety of funding and delivery options were considered. Such areas were seen as less political. This paper highlights changes in the budgetary process in a local government organization. Even though the process remains highly political, the basis of budget preparation involves an active and visible instrument in explaining the effectiveness and efficiency in the use and allocation of resources. There are three major findings of this study, first, budget preparation on the basis of the inherent nature of services into public, merit, and private goods provided a useful basis for service management evaluation. Such an analysis facilitates the formulation of business and resource strategies. Second, funding principles facilitated to categorize activities into core and non-core activities. While core activities need to be budgeted and funded from the existing revenue sources, non-core activities could be budgeted and managed differently by considering public and private goods principles. Third, the budgetary reform process helped to minimize of political maneuvering in resource allocation and budget calculations were seen from strategic perspectives.

Even though this study has made a significant contribution, it has a number of limitations. First, this study was conducted in a single local government entity in New Zealand. A more useful approach would be to undertake a comprehensive case study to locate significant differences among different local government entities facing the similar contextual environment. Further, a study could also be designed to study cross-sectional local government entities in New Zealand by taking a sample of all entities. Second, this study concentrated on the influences of budgetary sources and service design. It would be useful to undertake a further study to include service delivery and performance measurement issues and relate them to the overall budgetary process. Third, this study focused on short term budget implications of service design. Service design and funding issues can have long-term consequences. Recent changes in local government require such entities to take a long-term planning perspective. A further study can be designed to see how service design can be embedded within long-term planning and performance management perspectives. However, the present study has a number of important contributions which can lead to a number of further interesting studies in local government budgeting and service design.

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